DRAFT – NOT FOR DISTRIBUTION

NEW ORLEANS SHORT TERM RENTAL STUDY

USING STRs TO SUPPORT AFFORDABLE HOUSING

JULY 2019

HR&A Analyze. Advise. Act.
UrbanFocus®

TABLE OF CONTENTS

New Orleans engaged HR&A and Urban Focus to evaluate the feasibility and implications of using STR policies to support housing.

Timeline of STR Regulations

- **2015** — 2015 Short Term Rental Study conducted by City Planning Commission (CPC)
- **2017** — Initial STR policies enacted
- **2018** — City Council reconsiders STR policies, 2018 STR Study conducted by CPC
- **2019** — HR&A Team engaged

"For [commercial] short term rentals, using research that includes the forthcoming inclusionary zoning financial feasibility study, **recommend provisions to create affordable housing."**

– City Council Motion M-19-4

The HR&A Team undertook the following process to develop recommendations to tie affordable housing policies with STRs.

Assess STR market conditions and business landscape

Model and measure financial performance of STRs

Evaluate benefits and limitations of proposed policies

The City has proposed several taxes and fees as updates to its set of existing STR policies. Each affects the financial feasibility of STRs.

Occupancy Taxes

Generate revenues for infrastructure investment

Occupancy Tax

8.75%	**16.2%**
current	*proposed*

Permitting Fees

Generate revenue for administration and enforcement of STR regulations*

Commercial Permits**

Owners		**Operators**	
$500	**$5K**	**$0**	**$1K**
current	*proposed*	*current*	*proposed*

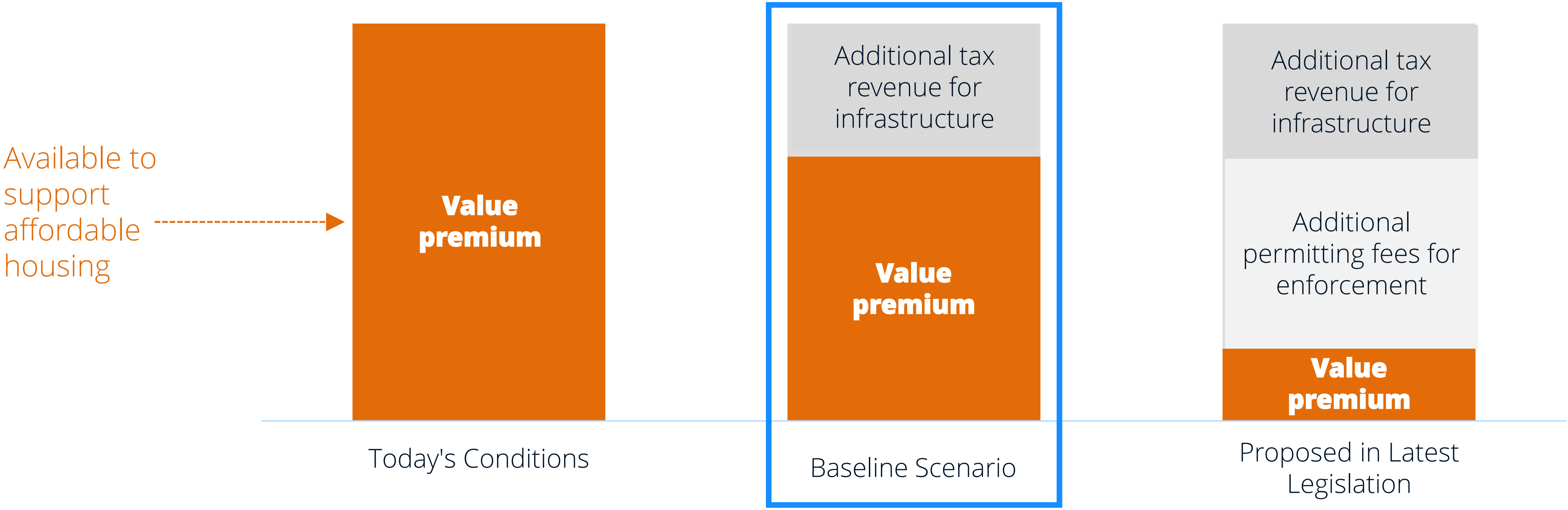
Housing Requirements

Generate revenue for affordable housing

current	**$1/night impact fee**
proposed	**additional fee and unit requirements**

**In addition to commercial permit fees, the City has also proposed additional residential permit and platform permit fees.*
***The proposed owner permit fees would be required for each unit, while the proposed operator permit fee would apply to each operator entity.*

Increasing other fees on STR units reduces the STR value that is available to support housing initiatives.



In this study, **HR&A assumes a baseline scenario where the occupancy tax rate increases to 16.2% and the commercial STR permit fee remains at $500.**

Note: Ratios were calculated for the Central Business District and are meant to be illustrative.

The City is currently considering STR legislation that would support affordable housing through **two types of policies.**

Fee-based policies

Generate revenue used to support affordable housing (e.g. via NHIF)

	current	proposed
Nightly Impact Fee	$1	$10
Unit Conversion Fee, →STR	--	*TBD*
Land Use Conversion Fee, →Lodging	--	*TBD*

Unit-based policies

Require the creation of affordable units in exchange for STR permits

	current	proposed
Unit Requirement	--	**1:1** above 25% cap
Tool to Support Inclusionary Zoning	--	*ALLOW*

The proposed affordable housing policies were evaluated against four criteria.

1 **Level of public benefit**
produces and/or preserves housing affordability

2 **Financial feasibility**
private actors can support public goals given market conditions

3 **Alignment with dynamics of STR industry**
considers variation in business models, risk tolerance, etc.

4 **Enforceability**
not onerous or impossible to enact

These policies are intended to apply to different entities and serve different purposes.

	1. Nightly Impact Fee	2. Unit Conversion Fee, →STR	3. Unit Requirement	4. Land Use Conversion Fee, →Lodging	5. Tool to Support IZ
Could Apply to	**All commercial STR Units***			**Residential buildings converting to lodging land use**	**New multifamily development**

**The nightly impact fee would also apply to residential zoning permits.*

Based on identified needs and financial feasibility findings, the HR&A Team recommends pursuing the following set of policies.

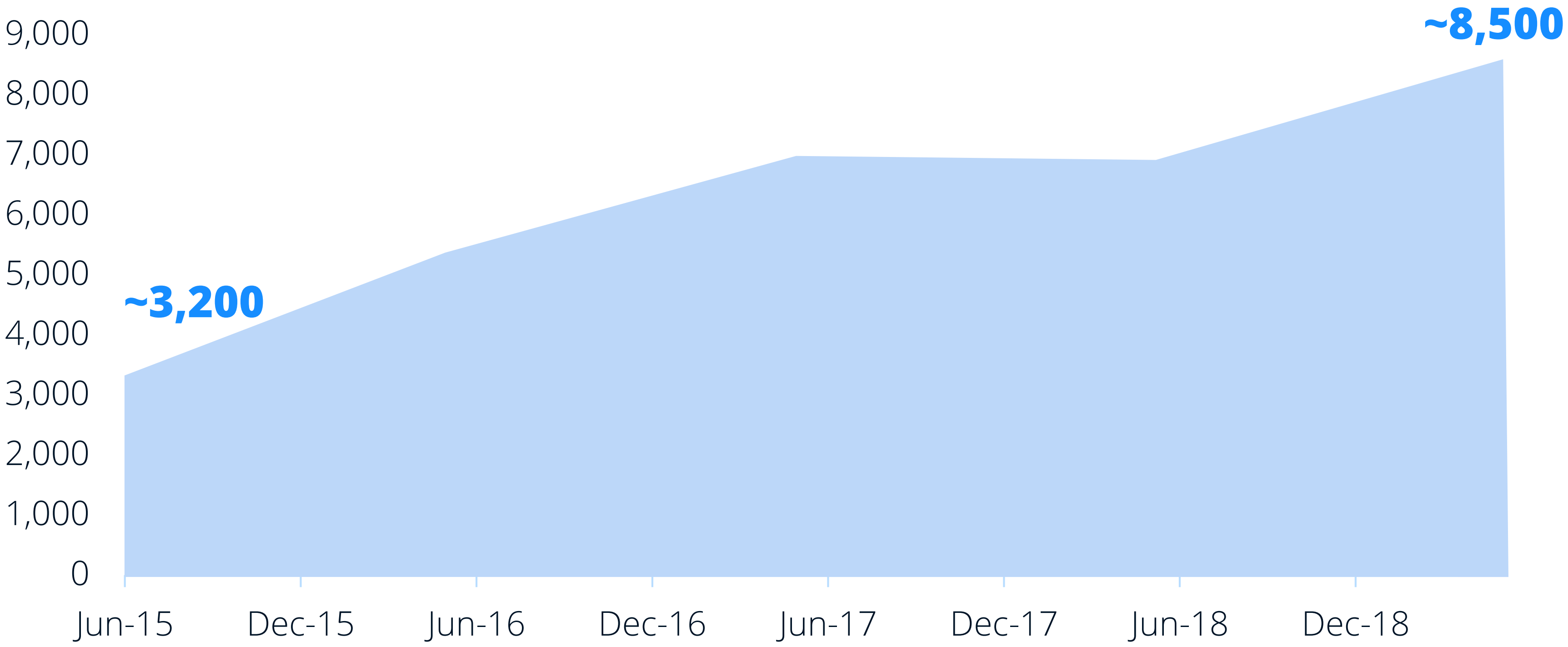
	1. Nightly Impact Fee	2. Unit Conversion Fee, →STR	3. Unit Requirement	4. Land Use Conversion Fee, →Lodging	5. Tool to Support IZ
Recommend	**Option 1:** **$10 Nightly Impact Fee only** **OR Option 2:** **$8 Nightly Impact Fee + $2,500 Unit Conversion Fee**		**Do not enact due to implementation challenges**	**$12,300/Unit Land Use Conversion Fee**	**Add to incentive options**
Mandatory or Optional	Mandatory	Mandatory		Mandatory	If STRs included, use to add additional affordable units OR pay fees
Should Apply to	All STRs	Residential units converting to STR (future, not retrospective)		Buildings converting from residential to lodging land use	Developers pursuing new development
When Imposed	Per occupied night	One-time charge at conversion		One-time charge at change in land use	One-time, at IZ incentive agreement
Citywide Impact	$6.2M ($8 comm, $5 resi) $6.7M ($10 comm, $5 resi)	Dependent on level of conversion activity	57 Units* (6:1 ratio between STR and affordable units)	Dependent on level of conversion activity	Dependent on level of development activity

Financial feasibility of policies based on 16.2% tax on STR units and $500 commercial permit fee. Projected impact assumes full compliance.
**Nightly impact fee may be applied to other STRs to not subject to the unit requirement.*

TABLE OF CONTENTS

Short-term vacation rentals are nothing new, but new business models and online platforms have led to their proliferation.

Growth in STR Listings in New Orleans



As of early 2019, there are now **more than 8,500 distinct active listings** on the major online STR platforms Airbnb and HomeAway.

Note: Includes all listings on Airbnb and Homeaway platforms, which includes a small number of non-STR units. As of early 2019, around 3% of units on platform are self-identified as a lodging use (hotel, B&B, etc.).

Source: HR&A Team analysis of data from Inside Airbnb and AirDNA

3.5 percent of housing units in the City are offered as STRs, though this share varies dramatically by neighborhood.

Whole-Unit STRs as a Share of Occupied Housing Units

New Orleans Neighborhoods

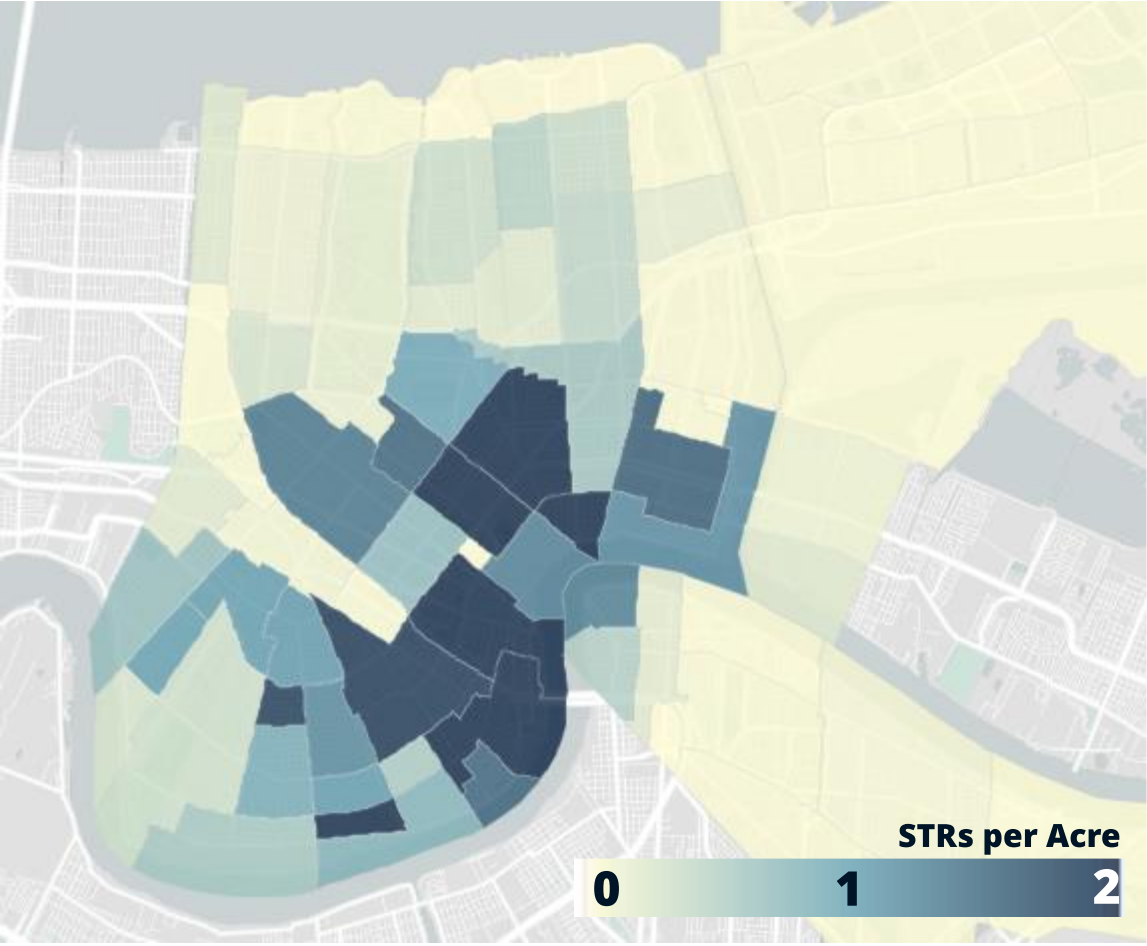
Central Business District	46%
Marigny	16%
Treme-Lafitte	14%
Bywater	10%
French Quarter (banned)	6.8%
Garden District (banned)	3.5%
Citywide Average	3.5%

New Orleans vs. Peer Cities

New Orleans	3.5%
Charleston, SC	3.5%
Savannah, GA	3.4%
Nashville, TN	2.9%
Austin, TX	2.1%
Los Angeles, LA	1.5%
New York City, NY	1.2%

Note: Share is representative of non-hotel, whole-unit listings for all New Orleans data. Non-hotel whole-unit listings count was unavailable for other cities, for which a direct ratio between all whole-unit listings and occupied housing units is provided. This ratio is 5.5% in New Orleans.
Source: HR&A Team analysis of data from AirDNA, The Data Center, and U.S. Census

STRs are overwhelmingly concentrated in central neighborhoods of the city, such as the CBD, Treme, and Marigny.



Neighborhood	# of STRs (Non-Hotel)	Share of STRs (Non-Hotel)
Central Business District	891	14%
Central City	427	7%
Seventh Ward	435	7%
Treme-Lafitte	361	6%
Mid-City	351	6%
Marigny	322	5%
Lower Garden District	264	4%
Bywater	214	3%

These top eight neighborhoods represent over 50% of STRs in the city.

Source: HR&A Team analysis of AirDNA and U.S. Census data

Within New Orleans, there are generally two categories of STR licenses, determined by zoning.

	Residential Zoning			Commercial Zoning
2015 to present	**Temporary License**	**Accessory License**		**Commercial License**
Currently proposed	**Partial-Unit License**	**Large Residential License**	**Small Residential License**	**Commercial License**

The analysis at hand focuses on regulation of *commercial* STRs, as defined by zoning status.

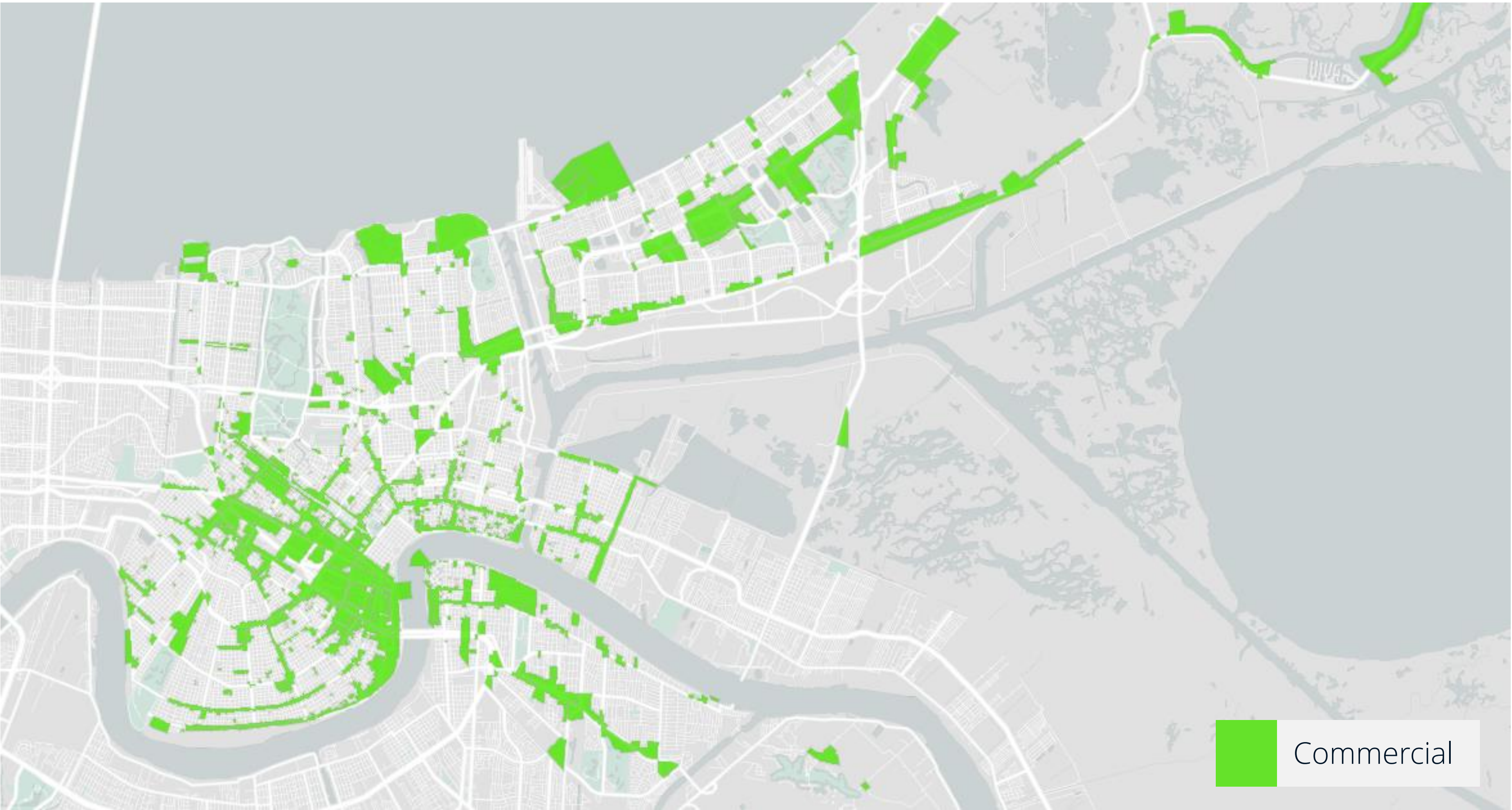


TABLE OF CONTENTS

The financial value generated by STRs is realized by three parties.

Building Owners

Own the property and ultimately determine its usage, i.e. STR vs. different use

STR Operators

Oversee rental operations and maintenance, e.g. cleaning, furnishing, pricing

Platforms

Facilitate the transaction, including collection and disbursal of revenues and fees

These parties vary in size and nature, and their roles can overlap.

Building Owners

Single-family homeowners

Multifamily property owners

STR Operators

SONDER

STAY ALFRED

Hosteeva

STAY HEIRLOOM

And many more...

Platforms

airbnb

HomeAway

Vrbo

Booking.com

Self-Operators

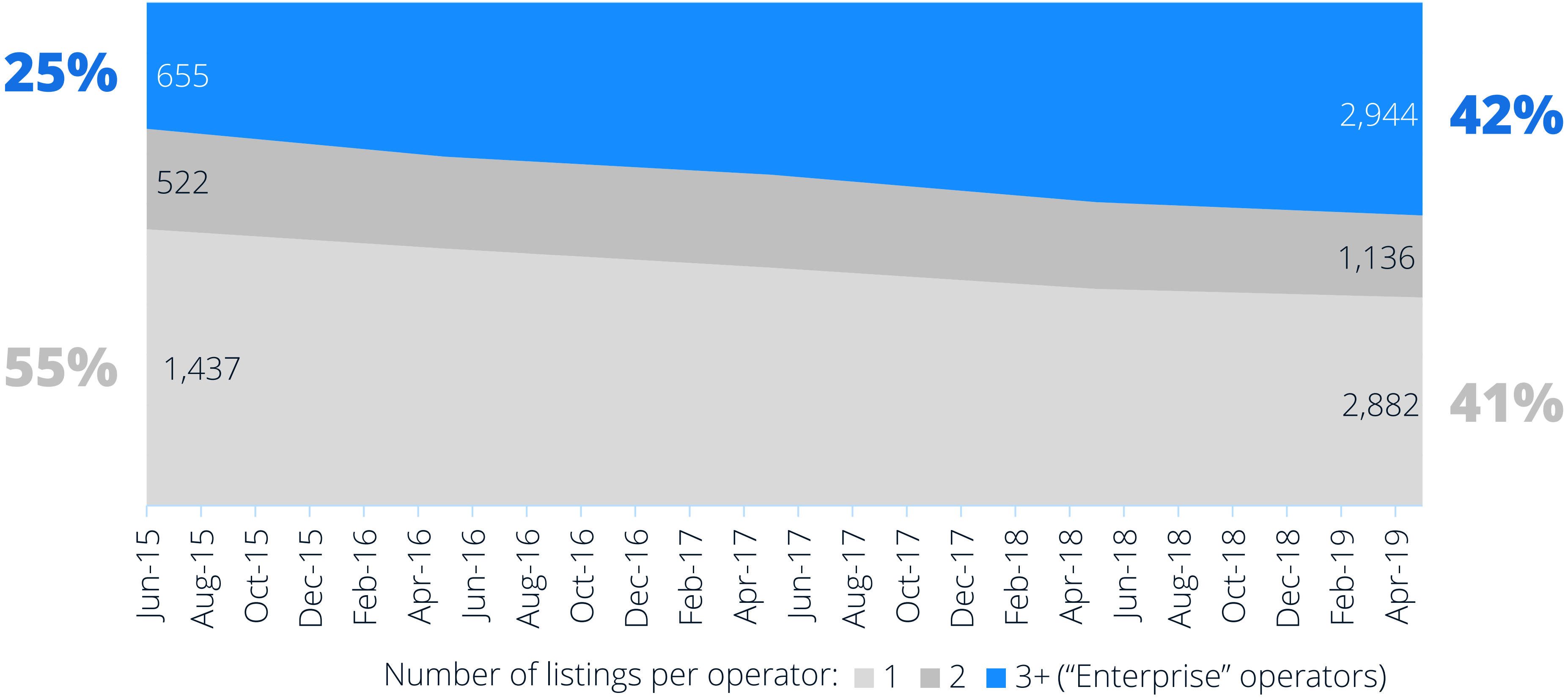
Some property owners, typically smaller scale ones, will self-operate

Proprietary Platforms

Most larger scale operators have their own platforms

As the STR market in New Orleans matures, units are increasingly being run by larger operators.

Share of Airbnb Units by Size of Operator



Note: Airbnb listings only
Source: HR&A Team analysis of Inside Airbnb data

There are at least three distinct STR business models, each of which represents a different relationship between the owner and operator.

1. Self-Operator:
Building owner operates units on own. Typically a smaller-scale operation.

2. Management Fee Operator:
Building owner pays a third-party manager a share of revenues to help operate STRs. Works at all scales.

3. Master Lease Operator:
Operator leases units from a building owner, often for 3+ years. Only several larger operators do this.

The key difference between these models is how value flows between the different parties.

Within each model, STR revenues flow to different entities. Currently, these entities are the ones holdings the STR permit.

Owners and operators then take care of the related expenses and share in the earnings. The specific breakdown of responsibilities varies by contract.

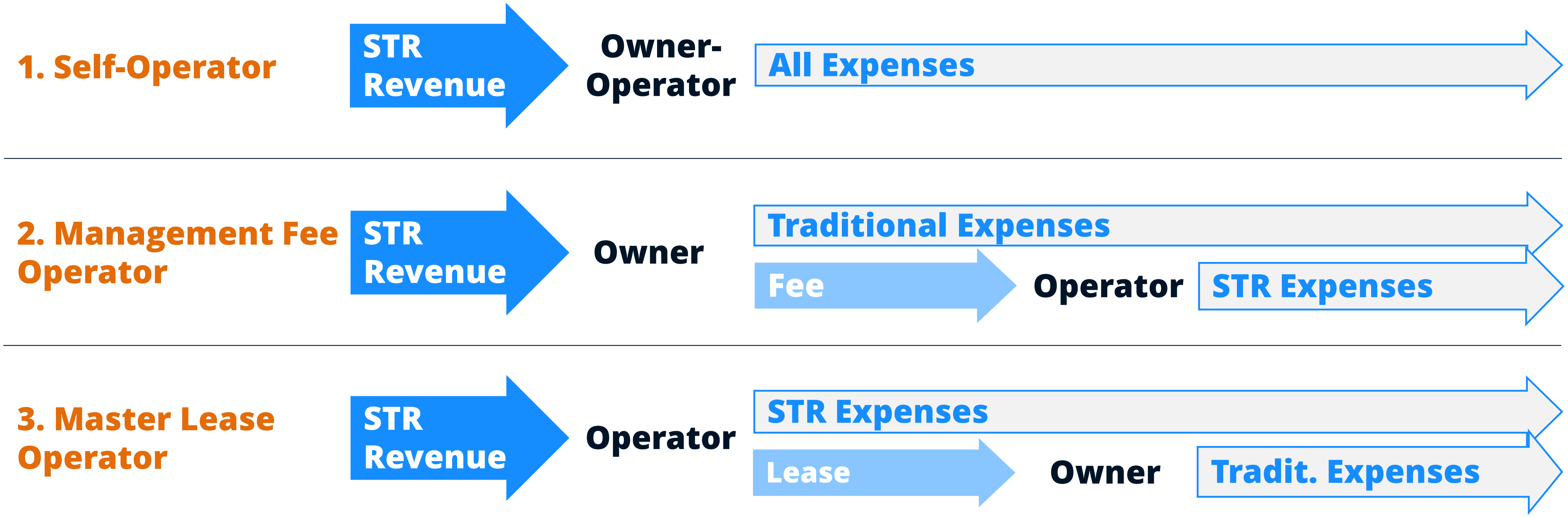
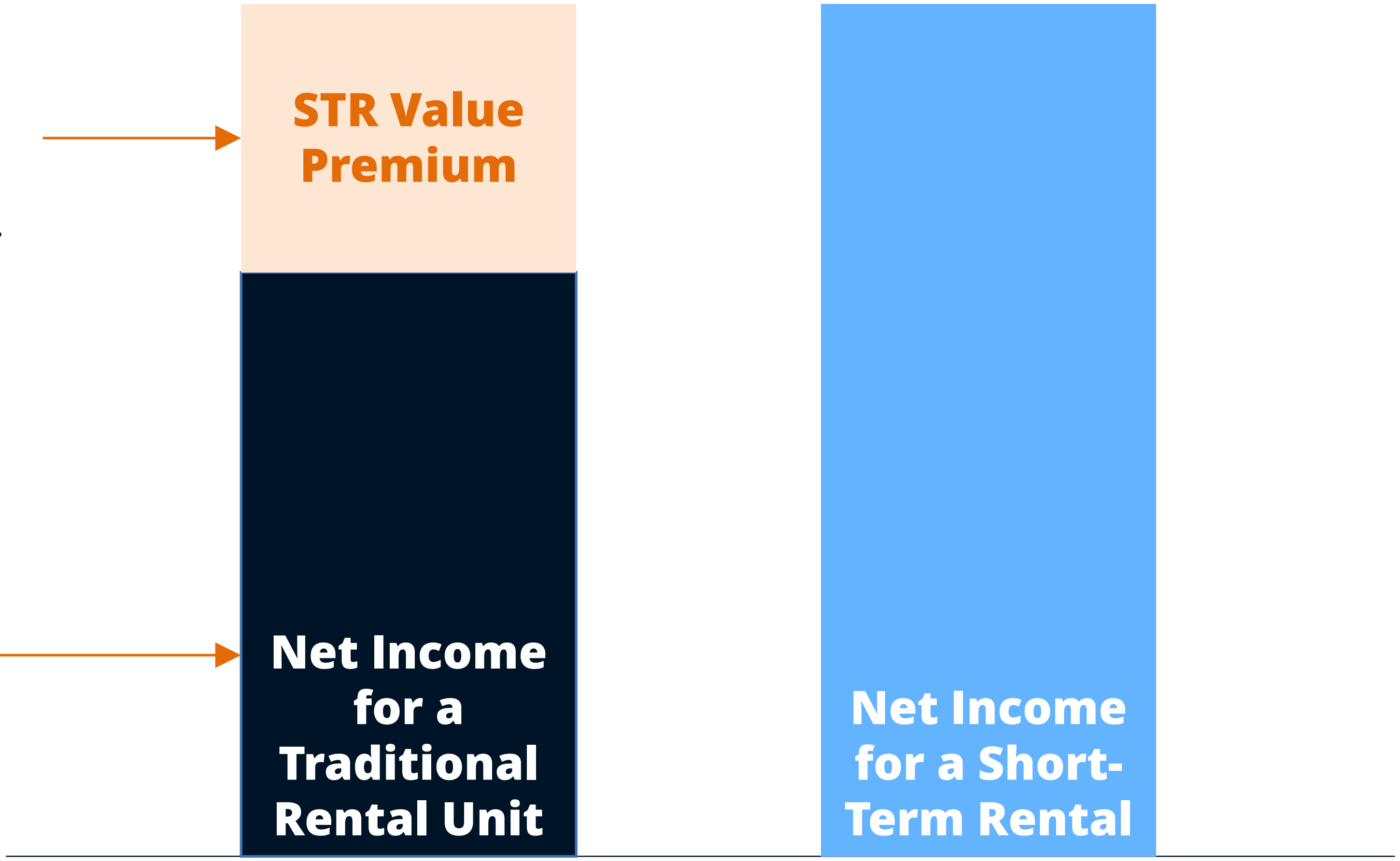


TABLE OF CONTENTS

To evaluate financial feasibility, HR&A first considered the size of the STR "**value premium**" over traditional rental units.

Once this value is defined and measured, we can assess the financial feasibility of a variety of policies by using this value impact as a threshold.

Net Income = Revenue - Expenses



HR&A calculated the STR value premium based on value captured by both owners and operators.

Owner Calculation:

Owner Revenue – Owner Expenses – Net Income for Traditional Rental = Owner Value Premium

Operator Calculation (if operator is distinct from owner):

Operator Revenue – Operator Expenses – Required Returns = Operator Value Premium

Owner Value Premium + Operator Value Premium → Total Value Premium

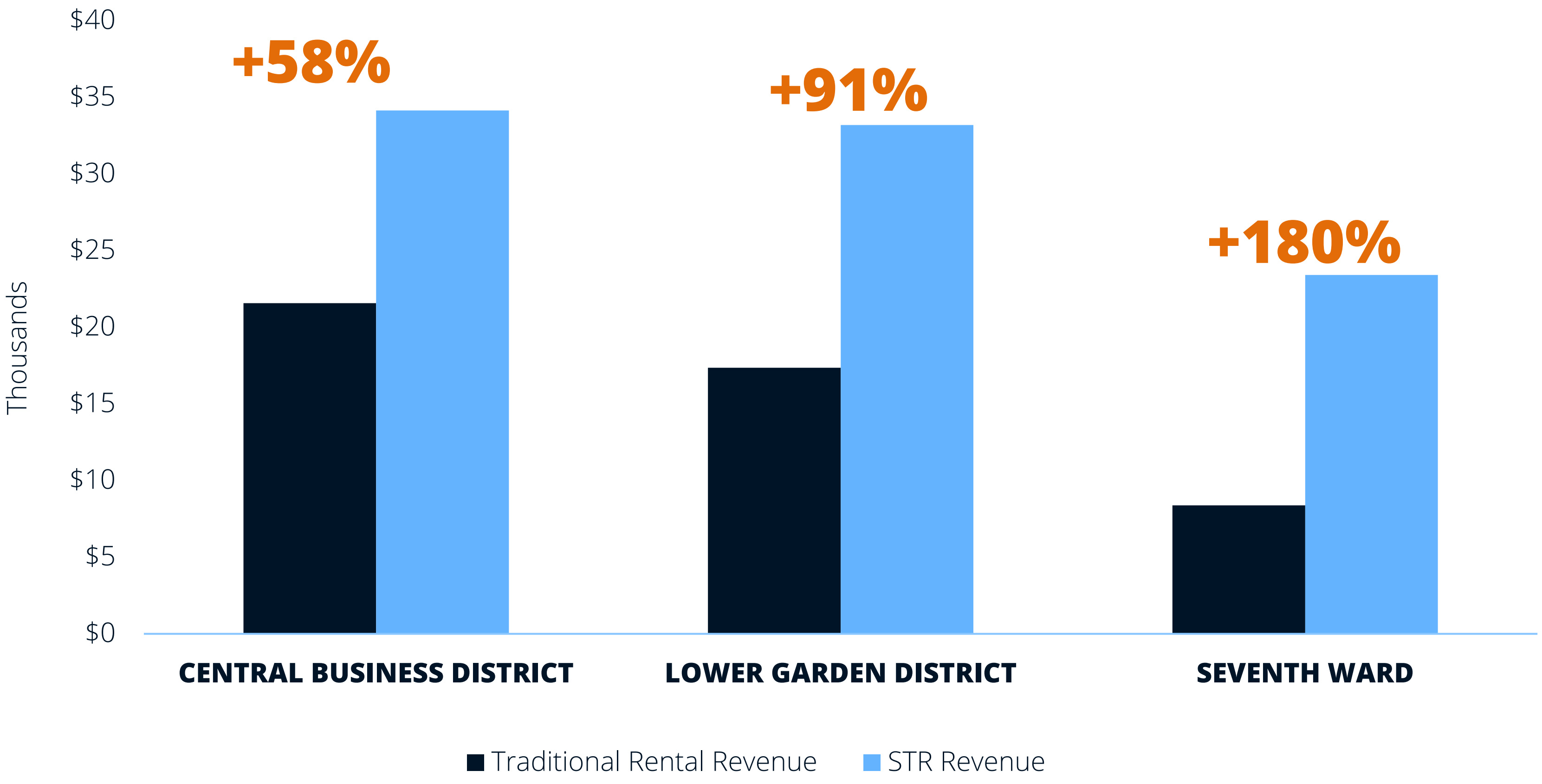
Value premiums are highly variable across units, with two key factors influencing the value of STRs relative to traditional rentals.

1. **Location:** What is the relative appeal of the neighborhood, block, or building to long-term residents vs. visitors occupying STRs?

2. **Unit Bedrooms:** What is the relative demand and “willingness to pay” for unit types (1BR, 2BR, 3BR, etc.) by long-term residents vs. visitors?

Neighborhood-level premiums are determined by the strength of the residential market relative to the strength of the hospitality market.

STR vs Traditional Rental Annual Gross Revenues, Various Neighborhoods

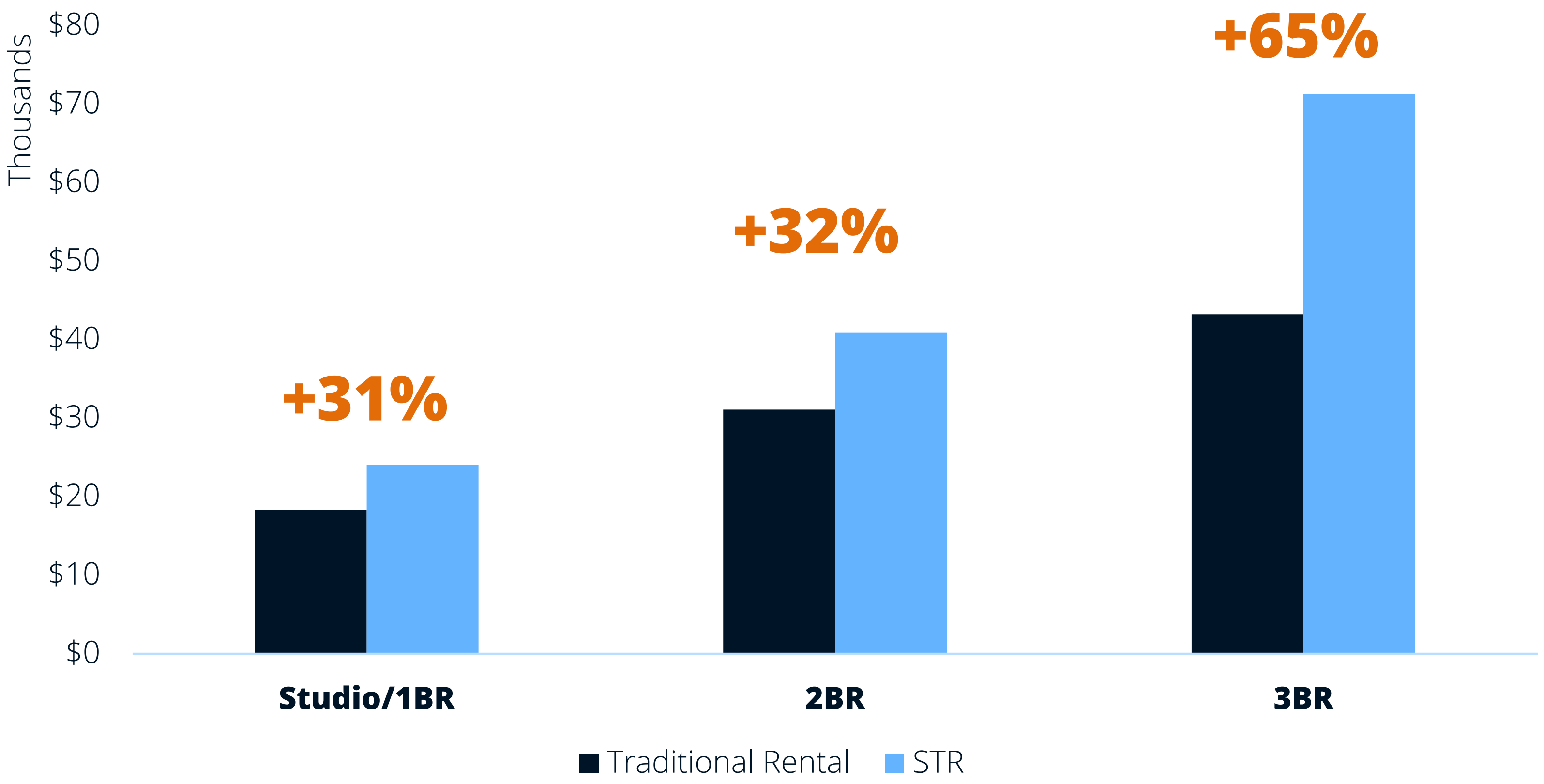


Neighborhoods with lower long-term rents do not necessarily have low STR ADRs.

Sources: HR&A Team analysis of CoStar and AirDNA data

Across all locations, STR premiums increase for larger units.

STR vs Traditional Rental Annual Gross Revenues by Unit Size, CBD



There is much more demand for large STR units than large long-term rental units, and STR operators calculate demand per bedroom rather than per unit.

Sources: HR&A Team analysis of CoStar and AirDNA data

TABLE OF CONTENTS

The proposed affordable housing policies were evaluated against four criteria.

1. **Level of public benefit**
   produces and/or preserves housing affordability

2. **Financial feasibility**
   private actors can support public goals given market conditions

3. **Alignment with dynamics of STR industry**
   considers variation in business models, risk tolerance, etc.

4. **Enforceability**
   not onerous or impossible to enact

Based on identified needs and financial feasibility findings, the HR&A Team recommends pursuing the following set of policies.

	1. Nightly Impact Fee	2. Unit Conversion Fee, →STR	3. Unit Requirement	4. Land Use Conversion Fee, →Lodging	5. Tool to Support IZ
Recommend	**Option 1:** **$10 Nightly Impact Fee only** **OR Option 2:** **$8 Nightly Impact Fee + $2,500 Unit Conversion Fee**		**Do not enact due to implementation challenges**	**$12,300/Unit Land Use Conversion Fee**	**Add to incentive options**
Mandatory or Optional	Mandatory	Mandatory		Mandatory	If STRs included, use to add additional affordable units OR pay fees
Should Apply to	All STRs	Residential units converting to STR (future, not retrospective)		Buildings converting from residential to lodging land use	Developers pursuing new development
When Imposed	Per occupied night	One-time charge at conversion		One-time charge at change in land use	One-time, at IZ incentive agreement
Citywide Impact	$6.2M ($8 comm, $5 resi) $6.7M ($10 comm, $5 resi)	Dependent on level of conversion activity	57 Units* (6:1 ratio between STR and affordable units)	Dependent on level of conversion activity	Dependent on level of development activity

Financial feasibility of policies based on 16.2% tax on STR units and $500 commercial permit fee. Projected impact assumes full compliance.
**Nightly impact fee may be applied to other STRs to not subject to the unit requirement.*

The Nightly Impact Fee could generate a significant amount of revenue and is generally financially feasible.

Level of Public Benefit				Financial Feasibility
Fee Level	**Revenue Per Unit**	**Citywide Revenue***	**Equivalent Affordable Units****	**Financially Feasible for Average STR?**
Commercial Nightly Impact Fee				
$1	$140	$255K	50	Yes
$5	$700	$1.3M	260	Yes
$8	$1,120	$2.0M	415	Yes
$10	**$1,400**	**$2.5M**	**520**	**Yes**
Residential Nightly Impact Fee				
$1	$125	$835K	170	
$5	**$625**	**$4.2M**	**860**	
Total	N/A	**$6.7M**	**1,380**	

** Assuming compliance rate nearing 100% through platform cooperation.*
***Equivalent unit calculation based on annual subsidy cost provided to two-bedroom units affordable to households at 60% AMI*

The Nightly Impact Fee is a relatively straightforward policy: it is uniformly implementable, adjustable, and well-precedented.

Alignment with Industry Dynamics

+ **Uniform impact**: A nightly fee applies to all building and unit types, with impact proportional to performance (total fee tied to occupancy).

+ **Flexible:** A fee is simple to modify and update.

+ **Straightforward calculation**

+ **Well-precedented:** Many existing examples exist, including in New Orleans.

City	Existing Nightly Impact Fee
New Orleans	$1
Nashville	$2.50
Portland	$4
Seattle	$8 – 14

Enforceability

~ **Unreliable collection mechanisms:** Enforcement gaps exist, given currently inconsistent remittances. Path to enforcement is clear but unreliable: collaboration with the platforms is required.

~ **Some market distortion:** For owners and properties at the margins of profitability, the increase in fee may incentivize noncompliance (such as avoiding cooperative platforms) or exit from the market.

+ Positive
~ Neutral or weak
! Critical challenge

A fee for residential units converting to STR should be priced as an alternative to the nightly fee, which raises feasibility challenges.

Level of Public Benefit

+ **Discourages residential conversions**: This fee disincentivizes situations where existing residential units are directly removed from the market for STR use.

Financial Feasibility

! **Infeasible at higher fee levels:** A high fee would deter much of the market from complying due to a strong impact on profitability.

Nightly Fee Equivalent*	Conversion Fee Per Unit*	Equivalent "STR : Affordable Unit" Ratio	Financially Feasible?
$1	$1,200	4:1	Yes
$2	**$2,500**	**2:1**	**Yes**
$5	$6,100	4:5	No
$10	$12,300	2:5	No

+ Positive
~ Neutral or weak
! Critical challenge

**Present value of a nightly impact fee at this level, over 10 years, assuming occupancy remains at present levels*

The unit conversion fee (→ STRs) is more challenging to price and impose than an impact fee, though it may be easier to enforce.

Alignment with Industry Dynamics

+ **Flexible, with some challenges:** Can be applied to most building and unit types.

! **Market distortion:** Financial impact of an upfront fee will harm smaller operators more than larger, well-resourced operators. The City will need to define which types of operators and situations this fee applies to.

Enforceability

+ **Clear point of contact for collection:** Fee can be tied to permitting process, requiring only a one-time collection.

! **Increases likelihood of noncompliance:** Because fee is tied to permitting, only permitted units will pay (vs with nightly impact fee, all units remit a tax if transaction occurs via certain platforms).

\+ Positive
~ Neutral or weak
! Critical challenge

The City could consider combining a nightly impact fee with a unit conversion fee.

Option 1: $10 nightly fee

+ **Annual Revenue Impact: $6.7M**

~ **Additional Public Impacts:** None significant.

~ **Some market distortion:** For owners and properties at the margins of profitability, the increase in fee may incentivize noncompliance (such as avoiding cooperative platforms) or exit from the market.

Option 2: $8 nightly fee + $2,500 conversion fee*

~ **Annual Revenue Impact: $6.2M + fees for conversions that year.**

+ **Additional Public Impacts:** Disincentivizes residential conversions.

! **Stronger market distortion:** Financial impact of an upfront fee will harm smaller operators more than larger, well-resourced operators. The City will need to define which types of operators and situations this fee applies to.

**Note that the unit conversion fee would be layered on top of the nightly fee: those who pay the former would still pay the latter.*
The unit conversion fee would apply to future conversions, not past ones.

+ Positive
~ Neutral or weak
! Critical challenge

The unit requirement's public benefits are comparable to those of the nightly fee.

Level of Public Benefit

+ **Direct creation of affordable units**: Generates on-site affordable units.

Financial Feasibility

~ **Uneven financial impacts:** Easier for some owners or operators to meet this requirement than for others.

~ Feasibility varies neighborhood by neighborhood and building by building

Feasible Ratio:

6 : 1

STRs : unit affordable at 60% AMI

Citywide Impact:

57 units

Created within qualifying properties*

+ Positive
~ Neutral or weak
! Critical challenge

**If applied to all commercially zoned whole-unit apartment STRs with 6+ units. This indicates 57 per year, not 57 "additional" per year.*
Citywide benefits may include additional fee revenue generated by commercial STRs that do not qualify for the unit requirement, if a nightly impact fee is layered..

The unit requirement policy poses significant implementation challenges that undermine the policy's actual impact.

Alignment with Industry Dynamics

~ **Mismatch in timing:** Length of STR permit and length of housing affordability differ. This issue can be solved, but it adds an additional layer of complexity.

! **Inapplicability to all buildings:** A unit requirement is only fitting for larger buildings (10+ units) with common ownership, and it has a highly uneven impact across neighborhoods.

! **Mismatch in manager sophistication**: Providing affordable units requires technical sophistication and familiarity with affordable housing, which some STR owners and operators may not have.

Enforceability

! **Technical difficulty in enforcement:** The direct provision of affordable units will involve many layers of additional protocols, such as income verification, continued monitoring, etc.

! **Strong distortion likely:** Affordable unit requirements set at a ratio encourage owners and operators to "game" requirements (i.e. include five STRs in a property to avoid policy imposed at sixth STR).

+ Positive
~ Neutral or weak
! Critical challenge

A conversion fee for residential properties converting to a lodging land use can be priced to equal the "avoided" STR impact fees.

Level of Public Benefit

+ **Encourages desired behavior**: Achieves public goal of disincentivizing removal of existing residential units from the market.
+ **Revenue dependent on market activity**: Total number of conversions will determine revenue generated by conversion fee.

Nightly Fee Equivalent*	Building Conversion Fee Per Unit*
$1	$1,230
$5	$6,100
$8	$9,800
$10	**$12,270**

Financial Feasibility

~ **Structured to prevent avoidance:** Priced as a deterrent that is equal to long-term value of the nightly impact fee.

+ Positive
~ Neutral or weak
! Critical challenge

**Present value of a nightly impact fee at this level, over 10 years, assuming occupancy remains at present levels*

The building conversion fee does not apply to every STR and serves primarily to prevent the effective removal of residential properties.

Alignment with Industry Dynamics

- ~ **Limited applicability:** Applies only to buildings converting from residential to lodging land uses.
- ~ **Aligned with future market conditions:** Fee structured to equal the future impact fees that would otherwise be avoided by the land use conversion, reducing incentive to convert land use to avoid STR housing policies.

Enforceability

- \+ **Clear point of contact for collection:** Fee can be tied to permitting process, with one-time collection at change in land use designation.

\+ Positive
~ Neutral or weak
! Critical challenge

Because IZ is applicable only to new development, STR incentives should be established as an alternative to the citywide STR policy.

Level of Public Benefit

~ **Impact dependent on market activity:** Total units produced is dependent on new multifamily development occurring in locations subject to meeting IZ requirement.

Financial Feasibility

~ Feasible under current market conditions:

6 : 1

STRs unit affordable at 60% AMI

Developers should be presented with two options for providing affordable units beyond the base IZ requirement:

Base IZ Policy

Affordable Requirement	Incentives
5 - 10% of units at 60% AMI	Density Bonus, Reduced Parking, PILOT, RTA

+

STR Option 1: IZ STR Policy

One affordable unit (60% AMI) per six STR permits	STR Permits

OR

STR Option 2: Citywide STR Policy

Meet citywide STR policy supporting housing	

\+ Positive
~ Neutral or weak
! Critical challenge

Using STRs as an IZ incentive is unprecedented nationally, but it would be possible to implement STRs as part of the City's policy.

Alignment with Industry Dynamics

- ~ **Mismatch in timing:** Length of STR permit and length of housing affordability differ. This issue can be solved, but it adds an additional layer of complexity.
- ~ **Limited applicability:** Applicable only to developers who are subject to meeting an IZ requirement.

Enforceability

- \+ **Clear point of contact:** Enforcement can be aligned with enforcement of IZ policy.
- ~ **Lack of clear underwriting standards:** STRs are still an emerging use and may be difficult to consistently underwrite.

\+ Positive
~ Neutral or weak
! Critical challenge

TABLE OF CONTENTS

Summary of Policy Evaluation

	1. Nightly Impact Fee	2. Unit Conversion Fee, →STR	3. Unit Requirement	4. Land Use Conversion Fee, →Lodging	5. Tool to Support IZ
Level of Public Benefit	+ $6.7M/yr ($10 commercial fee, $5 residential fee) **OR** + $6.2M/yr ($8 commercial fee, $5 residential fee) + $2,500 per residential conversion + Disincentivizes residential conversions		+ 57 units (plus some impact fee revenue if layered with the nightly impact fee) + Direct creation of units	~ Dependent on level of conversion activity + Disincentivizes conversions to lodging uses	~ Optional incentive; Impact depends on market activity
Financial Feasibility	+ Feasible at all reviewed levels	+ Feasible at $2,500	~ Feasible at 6:1 ratio ~ Uneven financial impacts	~ Structured to prevent avoidance: $12,300 fee per unit	~ Feasible at 6:1ratio
Industry Alignment	+ Uniform impact + Flexible + Straightforward to calc + Well-precedented	+ Flexible ~ Applicable to only new conversions ! Uneven impact: smaller operators harder-hit	~ Mismatch in timing ! Inapplicable to all buildings ! Mismatch in manager sophistication	~ Limited applicability ~ Sized to align with foregone nightly fee revenue	~ Mismatch in timing ~ Limited applicability
Enforceability	~ Unreliable collection mechanisms ~ Some market distortion	+ Clear point of contact for collection (permitting) ! Increases likelihood of non-compliance	! Technical difficulties ! Strong market distortion likely	+ Clear point of contact for collection	+ Clear point of contact for enforcement ~ Lack of clear underwriting standards

+ Positive
~ Neutral or weak
! Critical challenge

Financial feasibility of policies based on 16.2% tax on STR units and $500 commercial permit fee. Projected impact assumes full compliance.

Summary of Policy Recommendation

	1. Nightly Impact Fee	2. Unit Conversion Fee, →STR	3. Unit Requirement	4. Land Use Conversion Fee, →Lodging	5. Tool to Support IZ
Recommend	**Option 1:** **$10 Nightly Impact Fee only** **OR Option 2:** **$8 Nightly Impact Fee + $2,500 Unit Conversion Fee**		**Do not enact due to implementation challenges**	**$12,300/Unit Land Use Conversion Fee**	**Add to incentive options**
Mandatory or Optional	Mandatory	Mandatory		Mandatory	If STRs included, use to add additional affordable units OR pay fees
Should Apply to	All STRs	Residential units converting to STR (future, not retrospective)		Buildings converting from residential to lodging land use	Developers pursuing new development
When Imposed	Per occupied night	One-time charge at conversion		One-time charge at change in land use	One-time, at IZ incentive agreement
Citywide Impact	$6.2M ($8 comm, $5 resi) $6.7M ($10 comm, $5 resi)	Dependent on level of conversion activity	57 Units* (6:1 ratio between STR and affordable units)	Dependent on level of conversion activity	Dependent on level of development activity

Financial feasibility of policies based on 16.2% tax on STR units and $500 commercial permit fee. Projected impact assumes full compliance.
**Nightly impact fee may be applied to other STRs to not subject to the unit requirement.*

APPENDIX

A. PRECEDENT STR HOUSING POLICIES

B. STR BUSINESS MODELS

C. FINANCIAL ANALYSIS METHODOLOGY

A. Precedent STR Policies

OVERVIEW

To establish a baseline understanding of precedent for policies being considered by the City of New Orleans, the HR&A Team explored existing STR housing policies enacted in other parts of the country—reviewing relevant city- and state-level legislation, researching publicly available information on STR policies, and interviewing and corresponding with city staff in multiple cities including Nashville, Maui, Boston and San Francisco.

This review is not a comprehensive assessment at every city's STR policy. Rather, it is focused on cities whose policies include mechanisms to provide funding for affordable housing and homelessness programs. The HR&A Team also assessed peer cities in the hospitality market such as Nashville, Austin, Charleston and Savannah to identify what, if anything, they are doing to regulate STRs in support of housing. The impact of STRs on housing is an emerging challenge, and proposed or enacted solutions to address housing concerns vary.

This study focuses specifically on commercial STRs, which are located in commercially-zoned areas of New Orleans and distinguished from residentially-zoned STRs. Distinguishing STRs by zoning type is not typical in other cities studied.

The most common mechanism in use is a direct tax on revenue generated by STRs. In most cases, residential and commercial STRs are taxed or charged at the same rate. No active policies were found that tie STRs to inclusionary housing policies or affordable housing requirements.

Definitions in New Orleans*:

Short-Term Rental (STR): Rental of all or any portion thereof of a residential dwelling unit for dwelling, lodging or sleeping purposes to one party with duration of occupancy of less than thirty (30) consecutive days. Hotels, motels, bed and breakfasts, and other land uses explicitly defined and regulated in this ordinance separately from short term rentals are not considered to be short term rentals.

Commercial Short-Term Rentals: An entire dwelling unit in a non-residential district that rents no more than five (5) guest bedrooms for overnight paid occupancy.

**Per the 2018 New Orleans Short Term Rental Study*

A. Precedent STR Policies

FEE-BASED POLICIES

In many states, STRs—as well as hotels—pay both an occupancy tax and a sales tax as a share of gross revenue. Typically, these taxes are the burden of the STR operator, and are often collected and remitted by transactional platforms such as Airbnb, which voluntarily collect these taxes as part of each guest transaction. Not all platforms can or do provide this service, and the difficulty of fee remittances adds a layer of complexity to monitoring policy compliance. These taxes are typically imposed and collected by the state, but they can also be imposed at the city level depending on local policy.

Nightly impact fees are actual dollar-value fees that are due each night a unit is occupied. These impact fees are often directed to a specific purpose, such as an affordable housing fund. Impact fees are typically legislated at the city level—state legislation is not required—and then collected by the city.

The most common form of STR policies supporting housing are taxes or impact fees tied to STR occupancy. In addition to New Orleans, which has an existing $1 nightly impact fee in place that supports affordable housing, there are well-established precedents across the country for taxes and nightly fees dedicated to housing uses. Fees directed to housing uses range from a 0.5% tax in Boston to an $8-14 nightly fee in Seattle.

While permit fees can sometimes act as a type of conversion fee, there is no precedent for conversion fees. A conversion fee is a fee imposed on units converting to a use that is believed to detract from a public goal, such as the preservation of residential land uses. Such a fee is applied to units converting from traditional residential uses to STR use, or to buildings converting from a residential land use (including STRs) to a lodging land use (such as hotel). There is currently no existing precedent for conversion fees for residential units becoming STR units. However, depending on permitting fee levels in place to operate STRs, permit fees function similarly to conversion fees.

UNIT-BASED POLICIES

There is no existing precedent for of a city or state permitting STRs in exchange for the development of affordable housing units. However, there are many examples of localities dedicating portions of their revenue tax or impact fee revenues to an affordable housing fund to support the provision of affordable units.

The City of Boston noted that it is interested in exploring the option of tying inclusionary units to STRs or corporate apartments, but the City has not determined how to structure such a policy.

More complex regulations lead to more operators working outside of the system. In New Orleans, many operators currently operate without STR permits or with expired permits. Others are seeking alternative means—such as permits for lodging uses—to avoid the uncertainty of STR regulations.

A. Precedent STR Policies

PRECEDENT STR POLICIES

City	Impact Fee	STR Tax	Hotel Tax	Tax Parity?	Taxes or fees supporting housing issues
Seattle, WA	$8-14 per nightly stay	17.10%	17.10%	Yes	$8 – 14 nightly impact fee
Portland, OR	$4 per nightly stay	13.50%	13.50%	Yes	6% STR tax plus $4 nightly impact fee
Nashville, TN	$2.50 per nightly stay	14.50%	14.50%	Yes	--
New Orleans, LA	$1 per nightly stay	15.20%	15.20%	Yes (pending)	$1 nightly impact fee
Boston, MA	2.75%	12.20%	12.20%	Yes	0.50% STR tax
Plymouth, MA	3.00%	11.70%	11.70%	Yes	1.05% STR tax
Crested Butte, CO	--	18.40%	18.40%	Yes	5.00% STR tax
San Antonio, TX	--	16.75%	16.75%	Yes	--
Cincinnati, OH	--	16.75%	16.75%	Yes	6.00% STR tax
Austin, TX	--	15.00%	15.00%	Yes	--
Charleston, SC	--	14.00%	9.00%	No	--
Los Angeles, CA	--	14.00%	14.00%	Yes	--
San Francisco, CA	--	14.00%	14.00%	Yes	--
Santa Monica, CA	--	14.00%	14.00%	Yes	--
Taos, NM	--	13.50%	13.50%	Yes	$100 registration fee
Savannah, GA	--	13.00%	13.00%	Yes	--
Mashpee, MA	--	11.70%	11.70%	Yes	4.28% STR tax
San Diego, CA	--	10.50%	10.50%	Yes	--

Source: Urban Focus research of policies by jurisdiction

APPENDIX

A. PRECEDENT STR HOUSING POLICIES

B. STR BUSINESS MODELS

C. FINANCIAL ANALYSIS METHODOLOGY

B. STR Business Models

THREE KEY ENTITIES

1. Property Owner – The property owner is the entity whose share of ownership of the real estate asset is 51 percent or higher. The owner's focus is to identify uses that will make the real estate asset financially viable, and to choose the "highest and best use" for the real estate asset.

Owners of STRs range widely in their size and nature. They can be owners of entire buildings and building portfolios, or they could be individual homeowners. In some cases, multiple parties will have shared ownership of an STR property, operating the unit as a joint venture.

2. Operator – The operator is the entity that oversees all operations related to running an STR unit, including managing bookings, cleaning, and coordinating with guests. There is significant variation in operator size. Larger operators may oversee hundreds of units, while others may coordinate only a handful of units. There are multiple large-scale operators working in New Orleans: Sonder, StayAlfred, Domio, Hosteeva and StayLoom are some of the major players. There are also smaller, locally based operators who work in the New Orleans market and the region. These smaller operators typically manage handful of smaller commercial properties for one or various clients.

3. Platforms – Platforms advertise and sometimes facilitate payments for STRs. Currently, the largest of such platforms are Airbnb and HomeAway (now VRBO, part of Expedia Group). There are many major and emerging platforms, and operators may use more than one to advertise their units. Platforms are usually third-party entities, though larger operators such as Sonder and StayAlfred have their own proprietary booking platforms.

Online platforms have come to play an important role in policymaking, as they can significantly affect compliance with key regulatory processes, such as compliance with permitting and payment of taxes and fees. Fees and taxes are often, but not always, collected through the platforms. Airbnb, HomeAway and Sonder's platforms all offer to collect these taxes and fees, but smaller platforms do not typically have this functionality.

Regulatory Implications: Currently, either the owner or the operator may be the STR permit holder, depending on the business model. For instance, if a developer master leases a section of a building to an STR operator, the STR operator is responsible for the permit application and for the relevant STR taxes. From a regulatory monitoring perspective, tracking has thus far focused on the permit holder, though this will change as the permitting practices in New Orleans evolve to distinguish between each of the players above.

Operators often post on multiple platforms and use online tools to track all sites. For the jurisdiction, this practice makes it difficult to confirm how many bookings there are in total, or how much total revenue should be generated through fees. The operator must manage and maintain records to track all fees and taxes required. This accounting can be a significant operating expense. Some cities have elected to prohibit the platforms from collecting taxes and fees in order to manage this process through the operator or permit holder.

B. STR Business Models

THREE KEY STR BUSINESS MODELS

Depending on factors such as size, risk appetite, access to financial resources and investor capital, and more, STR owners may adopt one of three basic business models that are currently present in the market.

1. Self-Operator: An owner may choose to self-operate, typically if they have relatively few units or otherwise have the interest, ability, and resources to do so. They may still contract others to do the cleaning and other tasks, but they oversee the coordination of these activities.

2. Management Fee Operator: An owner may choose to hire an operator for a fee, typically a share of gross revenue. This share of revenue is typically 5 to 10 percent for smaller local operators, and up to 25 to 30 percent for the largest and most sophisticated operators, whose high fees are due to an ability to optimize and maximize revenue. The choice between self-operating and hiring a management fee operator is fluid, and it depends on both profitability and convenience. As developers of both hotels and multifamily buildings begin to understand the management of STRs, many can be expected to form operating companies of their own to increase profitability.

3. Master Lease Operator: An owner may choose to master lease STR units to an operator for several years. In these cases, the owner's revenue stream is tied to a lease negotiated with the operator, rather than being tied to the amount of revenue generated by STR bookings. However, the lease rent that the operator is willing to pay is roughly based on the expected STR revenue, and it may be at or above multifamily market rents, depending on factors such as the neighborhood or the condition of the property. There is no single standard master lease contract—each agreement is a negotiation, and agreements differ widely between operators and even between units in a single operator's portfolio. These leases also include terms around maintenance and management costs, based on the expected level of overall unit wear-and-tear and based on the owner's willingness to pay for this maintenance. The leases more closely resemble a typical commercial office lease than a standard residential lease.

MOVING BEYOND STRs

Some STR owners and operators are opting to move entirely away from STRs, to become purveyors of traditional hospitality products. In New Orleans, several operators are increasingly operating under hotel licenses due to the lack of certainty in the STR permitting process. In several identified cases, these STR operators have identified properties in areas zoned to allow hotels and are self-developing properties as hotels instead of STRs.

B. STR Business Models

EXAMPLE PROJECTS

Example of a self-operated project: A local developer owns and operates twelve STR units in four properties in the Uptown and Garden District areas of New Orleans. The developer is a joint owner in the properties, and is a sole owner of a company that operates the units as STRs. The owner was an early adopter of STRs, after determining that these residential units located in commercial corridors turned over regularly and did not achieve sustainable rents due to noise levels. The owner manages these units with a small team of two office staff and six full-time cleaners. The operating costs associated with managing the units as STRs are higher than the cost of managing them as traditional rentals, as the owner must pay for utilities, turning/cleaning costs, booking and management costs. However, the net rental revenue is about 10 to 15 percent higher than if these same units had been long-term rentals.

Example of a master-lease operated project: A historic mixed-use, mixed-income multifamily building includes a mix of permanently affordable residential units, affordable commercial spaces, market-rate residential units, and STRs. The development also included several larger penthouses, which had difficulty leasing up due to a lack of market demand for units of that size and price level. The developer was approached by an operator to master lease the penthouse units for five years. The master lease rents were only slightly above the projected market rents used in the developer's pro forma, and included some additional fees for wear and tear by the STR guests.

Example of a hotel model: One developer has restored a 200-key hotel property, and under the hotel license, the developer is operating an additional 111 extended stay units through a long-term master lease with an STR operator. These units were originally, for a short period of time, contemplated to be one- and two-bedroom long-term market rate apartments, but the owner quickly determined that the market could not support them. The extended stay units have a separate entrance and are managed by the STR operator, but the hotel's services are available for additional charges. The master lease is paid upfront each month to the property owner, and the terms include housekeeping, bellman service, and access to room service. The building was designed with separate amenities, but the lines between the extended stay guests and the hotel guests continue to blur. The master lease operator advertises the extended stay units as they would any STR unit. The hotel rooms are also advertised on the same platforms typically used to list STRs.

APPENDIX

A. PRECEDENT STR HOUSING POLICIES

B. STR BUSINESS MODELS

C. FINANCIAL ANALYSIS

C. Financial Analysis

APPROACH

Purpose

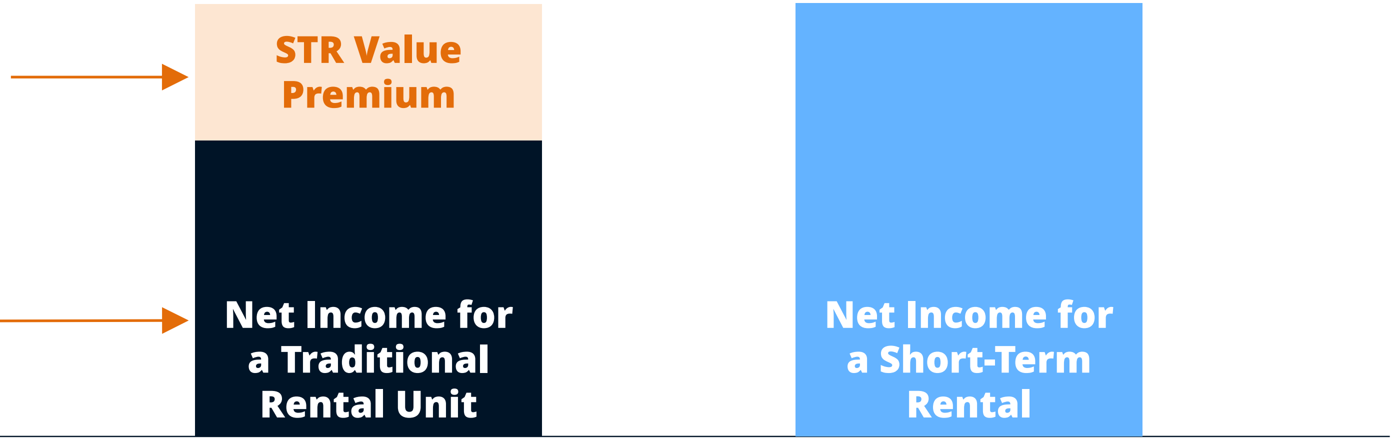
In order to determine the financial implications of housing policies on the STR market, and to draw conclusions about the impact such a policy may have on the feasibility of operating STRs, the HR&A team evaluated the financial value associated with STR units and tested the financial feasibility of operating STRs in New Orleans under a number of scenarios. HR&A's analysis is focused on STRs operating in commercially-zoned locations in New Orleans. This appendix describes the methodologies, assumptions, and results of this analysis.

Methodology

Establishing the value premium: For commercial STR operators and property owners, the decision to operate short term rentals is dictated by the ability to generate greater income through STRs relative to a traditional long-term rental. To understand how additional value generated by an STR may be applied to support housing initiatives, HR&A first defined the value premium of STRs relative to more traditional long-term rental units. Then, with an understanding of that value, HR&A assessed the value premium relative to the impact associated with housing policies being considered by the City. The value premium of STRs includes value flowing to both property owners and STR operators.

Once this value is defined and measured, the HR&A Team can assess the financial feasibility of a variety of policies by using this value impact as a threshold.

Net Income = Revenue - Expenses



C. Financial Analysis

APPROACH

Methodology (continued)

Geography: The financial analysis was designed to assess the STR value premium in neighborhoods across the City where commercial STRs are most active, which provides detail on how the value premium varies in different locations. Value is impacted by both residential and hospitality market conditions in each location HR&A selected the eight most active neighborhoods for commercial STR permits, which together make up more than 75% of commercial STR's operating in New Orleans and are representative of the overall market. Neighborhoods such as Tremé, although active STR markets, are comprised primarily of residentially-zoned properties, and therefore not included in this analysis. Neighborhoods included in HR&A's analysis include:

- CBD
- Central City
- Seventh Ward
- Mid-City
- Lower Garden District
- Marigny
- St. Claude
- Bywater

Business Models: There are at least three distinct STR business models in place in New Orleans, each of which represents a different relationship between the owner and operator. For each neighborhood, HR&A assessed the value premium under each business model:

- Self-Operator: Building owner operates and manages units on their own. Typically a smaller-scale operation.
- Management Fee Operator: Building owner pays a third-party manager a share of revenues to help operate STRs. Works at all scales.
- Master Lease Operator: Building owner leases units to an operator, often for 3+ years. Only several larger operators do this.

This structure allows for comparison of the STR premium for all business models across the most active neighborhoods in New Orleans.

C. Financial Analysis

APPROACH

Understanding Results

Results are presented as a value premium, which is the comparison between the net income (revenues minus expenses) generated annually for a short-term rental unit and a traditional long-term rental. For example, if current net income for a tradition rental unit in a neighborhood is $12,000 per year, and net revenue for that same unit as a short-term rental unit is $14,000 per year, there is a $2,000 value premium for STRs on that unit.

The flow of a value premium to property owners and operators is dependent on the business model in place on a unit, and STRs must remain feasible for both parties in order to maintain overall feasibility.

Applying results to policies under consideration

For fee-based policies such as a nightly impact fee, HR&A calculated whether the fee applied could be supported by the identified STR value premium. Fees were deemed feasible when the average annual premium across the market could support the projected cost.

- Nightly Impact Fee – A nightly impact fee impacts all units operating as STRs and is applied on a recurring basis for each night an STR unit is occupied. The HR&A Team projected fees associated with a nightly fee using average occupancy for STRs in New Orleans. A $10 nightly impact fee would generate an average of $1,400 per year per unit based on the average STR occupancy of 140 nights.
- Conversion – Residential to STR: A residential to STR conversion impacts residential units receiving STR permits for the first time and is applied on a one-time basis at initial issuance of an STR permit. For the purposes of this analysis, residential to STR conversion fees are deemed feasible when the fee can be absorbed by the value premium over the initial year of operation of the STR. Due to long-term market uncertainty and STR permitting length of one year, periods longer than one year were not considered for feasibility.
- Conversion – Residential to lodging land use: A residential to lodging land use fee is applicable to buildings converting to a lodging land use. Because units in these buildings would no longer require an STR permit, the conversion fee is structured to equal the long-term value of STR housing fees, which the HR&A team defined as the present value of a nightly impact fee over 10 years. The fee would to be applied on a one-time basis as part of the approval in land use change.

C. Financial Analysis

APPROACH

Applying results to policies under consideration (continued)

For unit-based policies, which require public benefit in the form of housing units, HR&A evaluated the value premium relative to the cost of providing housing units. Results are presented as a ratio of the number of STR units required to support an affordable unit (two-bedroom unit a 60% of Area Median Income).

- Unit Requirement: Unit requirements impact all properties in which the size and structure of ownership allows for this type of policy. Due to complications in implementing this type of policy on properties with few units or properties with divided ownership, the HR&A Team assumes applicability of this policy only on buildings with enough units to support the affordability ratio, and with unified ownership (i.e. non-condo properties).
- Inclusionary Zoning (IZ) tool: Using STR permits as an incentive within the City's IZ policy provides a means for developers of new buildings already subject to an IZ requirement to meet an STR requirement through the IZ policy. Calculation of the ratio of STR units relative to supportable affordable units follows the same structure as the unit requirement analysis.

Applying custom STR unit requirements at a project- or neighborhood-level is challenging for two reasons:

1. **Lack of established underwriting process for STRs from lenders**: Unlike other incentives available to support housing (PILOT, RTA, density bonus, parking reductions), there is not an established approach for underwriting STRs as part of the cash flow of a property. Short term rentals are an emerging market type. As such, lenders and others active in property markets noted that there is not yet an institutionalize process for underwriting and accounting for the value an STR unit may provide to a property. As a result, it is difficult to impose requirements based on underwriting at the project level, as is often done for other incentives used to support housing initiatives As STRs become more established and institutionalized, underwriting practices should become more common and allow for project-specific considerations.

2. **Variable alignment between hospitality and residential markets:** The ratio of affordable units that can be supported by an STR at any given property is based on the value premium associated with STRs, which is dependent on market conditions and pricing for both hospitality uses (STRs) and residential uses (traditional rentals). Because these markets do not necessarily move in sync with one another, establishing tiered requirements tied to residential-based boundaries such as those recommended as part of New Orleans inclusionary housing policy is not possible.

To account for these challenges, **HR&A's analysis assesses the ratio at which an affordable unit requirement could be supported across the most active neighborhoods for commercial permits in the city**, including the Central Business District, Central City, Seventh Ward, Mid-City, Lower Garden District, Marigny, St. Claude, and Bywater.

C. Financial Analysis

APPROACH

Summary of policies evaluated

Nightly Impact Fee

Current	Proposed by Legislation & Evaluated by HR&A
$1/night fee deposited in Neighborhood Housing Investment Fund (NHIF)	• $5/night for residential (not part of analysis) • $10/night for commercial

Conversion Fee, → STR

Current	Proposed by Legislation	Evaluated by HR&A
None distinct from permit fee	Apply some form of conversion fee	Fee for units converting from residential to STR use

Unit Requirement

Current	Proposed by Legislation	Evaluated by HR&A
None	1:1 ratio above a 25% cap	Feasible X:1 ratio, no cap

Conversion Fee, → Hotel

Current	Proposed by Legislation	Evaluated by HR&A
None	Apply some form of conversion fee	Conversion fee for *properties* converting from residential land use to lodging land use (hotel, timeshare, etc.)

IZ Incentive

Current	Proposed by Legislation	Evaluated by HR&A
Not an IZ incentive	Allow as an incentive alongside other incentives identified in the IZ policy, including tax abatements, density bonuses, etc.	Provide STRs with fees waived as an optional incentive

C. Financial Analysis

INPUTS AND ASSUMPTIONS

Market conditions

		CBD	Marigny	Lower Garden District	Mid-City	Central City	Seventh Ward	St. Claude	Bywater
Traditional Residential	Traditional Long-Term Monthly Rent	$2,065	$2,115	$1,569	$1,288	$1,109	$1,153	$1,232	$1,769
	Vacancy	13%	9%	8%	12%	16%	13%	13%	11%
Short Term Rental	Average Daily Rate ($)	$256	$335	$342	$218	$249	$314	$217	$256
	Annual Bookings	47	44	42	40	45	43	42	42
	Avg. Length of Stay (Days)	4.0	4.2	4.3	4.2	4.1	3.7	4.4	4.3

Note: HR&A analysis further breaks out STR ADR, occupancy and length of stay by operator type.

Traditional residential assumptions

- Rental pricing and vacancy is based on market data from CoStar and Zillow for the full stock of multifamily housing in each neighborhood. The current rate of vacancy varies by neighborhood, ranging from 8% in the Lower Garden District to 16% in Central City.

Short term rental assumptions

- Short term rental information (average daily rate, annual bookings, and average length of stay) for each neighborhood is based on market data from AirDNA analyzed by HR&A. AirDNA data is provided at the property level. HR&A's analysis includes only active, whole-unit, non-hotel properties in commercial areas in operation for more than one year. Listings for which an operator, reservation count, or ADR were not provided were removed from the calculations.

C. Financial Analysis

INPUTS AND ASSUMPTIONS

Operations, fees, and valuation – Traditional resi. units

Operating Expense Ratio (less taxes)	18%
Real Estate Taxes (based on 10% of assessed value)	15%
Cap Rate	5%

Traditional residential assumptions

- HR&A assumes operating expenses equal to 18% of rental income, a standard market assumption for residential uses. Tax rates applied are based on the residential tax rate in New Orleans and applied on the assessed value, which is equal to 10% of market value.

Short term rental assumptions

- HR&A assumes operating expenses for STRs based on frequency of rental (turns) and operator type, informed by information gathered through interviews of STR owners and operators. Occupancy tax of 16.2% reflects a proposed increase in infrastructure taxes on STRs, while permitting fees reflect current costs imposed on STR operators. For determining profit requirements, HR&A relied primarily on interviews with active STR owners and operators.

Operations, fees, and valuation – STRs

Operating Costs	
Cleaning Fee (per bedroom, per rental)	$30
Utilities (per bedroom, per month)	$40
Fixtures. Furniture & Equipment (per bedroom)	
Self-Operator	$4,000
Management Fee Operator	$5,000
Master Lease Operator	$8,000
Fixtures, Furniture & Equip Useful Life (years)	10
Management Fee (Management Operator only)	25%
Taxes and Fees	
STR Occupancy Tax	16.2%
Commercial Permit Fee*	$500
Nightly Impact Fee	$1**
Real Estate Tax Rate (based on 10% of assessed value)	15%
Other	
Cap Rate	8.5%
Return Requirement	12%

**Only a single permit fee is assumed, per existing regulations.*

***Base case assumes existing $1 nightly impact fee.*

C. Financial Analysis

FINDINGS

Value premium

The average value premium across the City is approximately $4,300, though value premiums vary widely by neighborhood. This variety is a factor of the difference between achievable rents within the neighborhood's traditional long-term rental market and achievable nightly rates within the neighborhood's short-term rental market.

For example, STRs in the Central Business District have high average daily rates ($256/night*), but long-term rents there are are relatively high, leading to a lower overall premium to operating an STR. Based on our calculations, STRs in neighborhoods like Central City and Seventh Ward can attract higher premiums because traditional rental rates are much lower there than in the CBD, while their proximity to tourist attractions allows them to have comparable or even higher STR rates ($249 and $315, respectively). A neighborhood like Mid-City has lower traditional rental rates as well as slightly lower STR rates ($218), which leads to a low overall premium.

Neighborhood	Weighted Average Value Premium	Share of Existing Commercial Permits	*Estimated Share of STR Units* Operated By:*		
			Self-Operators	***Management Fee Operators***	***Master Lease Operators***
CENTRAL BUSINESS DISTRICT	**$1,980**	**28%**	*20%*	*65%*	*16%*
CENTRAL CITY	**$7,290**	**10%**	*60%*	*40%*	*0%*
SEVENTH WARD	**$7,910**	**8%**	*70%*	*30%*	*0%*
MID-CITY	**$800**	**8%**	*62%*	*34%*	*4%*
LOWER GARDEN DISTRICT	**$8,800**	**8%**	*58%*	*39%*	*4%*
MARIGNY	**$6,290**	**7%**	*56%*	*42%*	*2%*
ST. CLAUDE	**$1,870**	**4%**	*83%*	*13%*	*4%*
BYWATER	**$1,610**	**4%**	*84%*	*15%*	*1%*
Total / Average	**$4,360**	**77%**			

**Whole-unit, non-hotel STRs in operation for over a year*

C. Financial Analysis

FINDINGS

Fee-based policies

Nightly impact fees of $10 per night are supportable for the average STR unit in the market. Fee-based policies are ultimately tied to the average number of occupied nights per whole-unit, non-hotel STR in operation for more than a year (thus "stabilized"). The nightly fee was calculated by multiplying this number by varying levels of nightly fees. The two conversion fees were calculated by taking the present value (discounted by 3 percent) of ten years of nightly impact fees for a unit, assuming a constant stabilized occupancy rate.

Nightly Impact Fee

Fee Level	Annual Revenue Per Unit	Annual Citywide Revenue*	Equivalent Affordable Units**	Financially Feasible for Average STR?
Commercial Nightly Impact Fee				
$1	$140	$255K	50	Yes
$5	$700	$1.3M	260	Yes
$8	**$1,120**	**$2.0M**	**415**	**Yes**
$10	**$1,400**	**$2.5M**	**520**	**Yes**
Residential Nightly Impact Fee				
$1	$125	$835K	170	
$5	**$625**	**$4.2M**	**860**	
Total	N/A	**$6.7M**	**1,380**	

Unit Conversion Fee

Equiv. Fee Level	Fee Per Unit	Financially Feasible for Average STR?
$1	$1,200	Yes
$2	**$2,500**	**Yes**
$5	$6,100	No
$10	$12,300	No

Building Conversion Fee

Equiv. Fee Level	Fee Per Unit	Financially Feasible for Average STR?
$1	$1,200	N/A
$5	$6,100	N/A
$8	$9,800	N/A
$10	**$12,300**	**N/A**

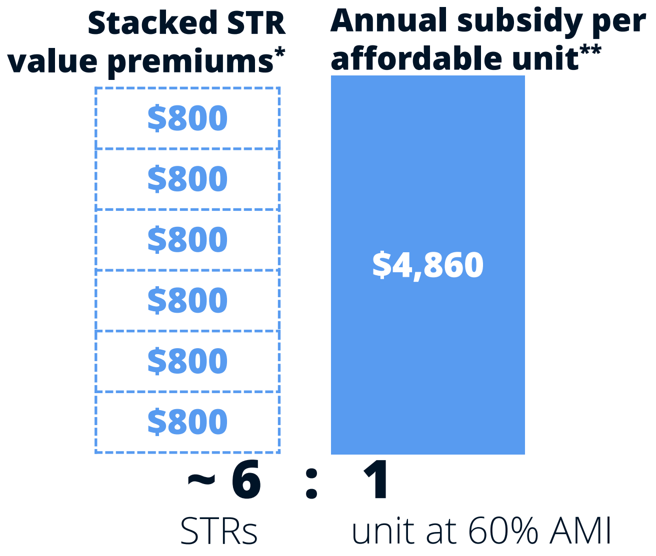
C. Financial Analysis

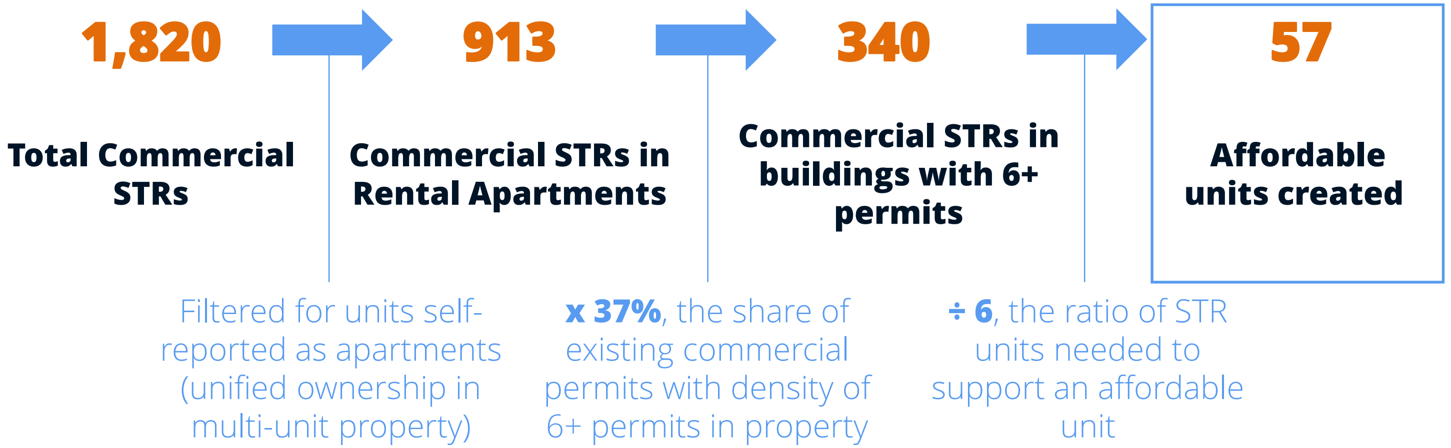
FINDINGS

Unit-based policies

The most-feasible threshold of STR units required to provide an affordable unit is a 6:1 ratio. Applying an STR value premium for the lowest neighborhood premium ($800) ensures feasibility of a citywide policy across New Orleans and addresses some implementation challenges associated with a unit requirement policy. While a lower ratio (closer to 1:1) could be feasible in some neighborhoods, the high variability in STR premiums leads to a high variability in the feasibility of using STRs to provide affordable units, not only by neighborhood, but also by property. This leads to difficulties with implementing either of the two proposed unit-based policies.

Under a 6:1 ratio requirement on applicable properties, 57 affordable housing units would be created through a unit requirement policy, assuming 100% compliance from qualifying units that currently have a commercial permit.***





**STR value premium based on lowest premium in assessed neighborhoods in order to determine feasible policy across all of New Orleans*

***Annual subsidy cost is based on a two-bedroom unit provided at 60% AMI*

****Projection of impact assumes application across all units, with no cap before requirement is applied.*

C. FINANCIAL ANALYSIS

FINDINGS

Share of units impacted

Any fee or tax imposed on STRs will have some effect on STR operations and profitability, especially for units at the margin of profitability or units operated by entities with lower risk tolerance. The HR&A Team assessed unit performance on an individual property basis to understand the share of units whose operating feasibility will be impacted by recommended policies.

The City's proposed increase of STR taxes will impact the financial feasibility of 11% of STR units. The City is considering a proposal to increase current STR taxes from 8.75% to 16.2%. The HR&A Team's baseline analysis assumes this increase in the tax rate to take into account how this tax will impact feasibility from current market conditions, and in conjunction with any housing requirements.

The HR&A Team's recommended policy of a $10 nightly fee will impact the profitability of an additional 8% of STR units. Imposing a fee equal to a $10 nightly fee (either through a $10 nightly fee or an $8 nightly fee and $2,500 conversion fee), will further impact feasibility of a share of STR units. HR&A estimates that a $10 fee will impact the ability of 8% of units to remain financially feasible under their current operating structure.

Together, new proposed occupancy taxes and housing fees will impact the financial feasibility of approximately one fifth of commercial STR units.

Policies	Scenario	Change in Number of Financially Feasible STR Units (%)	Change in Average Value Premium Across the Market (%)
Occupancy Taxes	Increase from 8.75% to 16.2% (incl. $1 nightly impact fee)	**-11%**	**-30%**
Nightly Fee	Increase from $1 to $10 nightly impact fee	**-8%**	**-14%**
Total Impact	16.2% occupancy tax and $10 nightly impact fee	**-19%**	**-44%**

C. FINANCIAL ANALYSIS

FINDINGS

Share of units impacted (continued)

For STRs whose feasibility is impacted by new fees, there are five possible responses to the enactment of the proposed policies, of which operators may choose a combination:

- **Shift business model to adjust cost structure**: Owners or operators may shift business models (e.g. switching from management fee to self-operation; or increasing the share of STR units) depending on what is optimal under the new regulations.
- **Accept lower returns**: Owners or operators may accept a lower rate or return, though this is often difficult if they are beholden to investor requirements.
- **Pass fee on to consumer**: To the extent that there is elasticity in market pricing, the owner or operator may raise STR prices and shift the burden of payment to the consumer. It is unclear the degree to which this can occur, some segments of tourist demand may be highly elastic and respond negatively to increases in price, therefore lowering occupancy and hurting overall revenues. However, to the extent that raising prices is possible, this is an attractive option to an owner or operator.
- **Avoid compliance**: If the reward of continuing to operate outweighs the costs and risks of operating "under the radar," owners or operators may seek out opportunities to operate outside of the City's established STR regulations. As the City considers new policies, it must also ensure mechanisms are in place to minimize non-compliance.
- **Exit the market**: If the owner or operator exhausts all other options for operations, they may be forced to cease operations due to an inability to be profitable. Based on current market impacts and proposed policies, HR&A expects only a small share of impacted units would exit the market.